

## CREDIT RATING ANNOUNCEMENT

### GCR downgrades Real People Investment Holdings Limited's rating to BB+(ZA); Outlook Negative.

Johannesburg, 06 Oct 2014 -- Global Credit Ratings ("GCR") has downgraded the national scale ratings assigned to Real People Investment Holdings Limited to BB+(ZA) and B(ZA) in the long term and short term respectively; with the outlook accorded as Negative. Furthermore, Global Credit Ratings has downgraded the international scale rating assigned to Real People Investment Holdings Limited to BB; with the outlook accorded as Negative.

The ratings downgrade follows GCR's anticipation of further asset quality deterioration, given the increasingly challenging operating environment, which is expected to lead to higher loan-loss provisioning and ultimately weaker earnings. In addition, the ratings are constrained by the tightening funding conditions experienced by microfinanciers, partially offset by Real People Investment Holdings Limited's ("Real People" or "the group") planned capital raise (although the likelihood of such remains uncertain).

The negative rating outlook is a reflection of the group's prospects, which are subject to high forecast risk given the current negative trends in the macroeconomic environment and credit cycle. As such, continuing external (macroeconomic/credit market) challenges pose further asset quality risks. Moreover, the group's weaker earnings generation capacity reduces its ability to absorb credit losses. In addition, the potential for further funding and cash flow volatility, in view of the more challenging conditions facing the group, was taken into account.

GCR expects to conclude its next ratings review of Real People by June 2015, once the group's audited annual financial results for the year ended 31 March 2015 have been published.

## SUMMARY RATING RATIONALE

GCR has accorded the above credit rating(s) to Real People based on the following key criteria:

Operating conditions remained challenging during Q3 2014, characterised by weaker economic growth and highly leveraged consumers. Furthermore, GCR expects household finances to continue being constrained by high unemployment levels and elevated inflation eroding disposable income (for the remainder of 2014 and into 2015). Also, as a result of a tense socio-political environment and a series of crippling strikes in the mining and manufacturing sectors, the trend in consumer finances remains unpredictable, exacerbated by high interest rates as well as regulatory uncertainty.

The group's capital base continues to be weaker than in previous review periods, constrained by lower internal capital generation ability. Total available capital stood at R895m as at end-August 2014, down from R916m reported for the year ended 31 March 2014 (F14). The group's capital adequacy, while below management's internal target of 36%, is at an acceptable level of 31.7% as at 31 August 2014 (F14: 31.7%), remaining above the covenanted minimum of 30%. In particular, while capital has been eroded, de-risking of the book has reduced capital required. According to management, R110m in new qualifying capital has been approved from existing and new shareholders through a capital raising exercise instigated at the beginning of the year. However, the shareholders have mandated the board to raise additional qualifying capital of up to R450m, inclusive of the R110m already approved, which should revitalise the group's capital loss absorption capacity. Should the capital raise not be completed prior to the end of 2014, further corporate actions may be considered by the group.

While the group's credit metrics and/or protection factors for its home finance portfolio are in line with expectations, its branch run-off book is under sustained asset quality pressure. Consequently, management has undertaken various remedial actions to improve performance/collections in this book. Nevertheless, GCR anticipates further asset quality deterioration given the stresses in the local unsecured lending market. In particular, the challenging operating environment will continue to weigh on consumers' ability to service and repay debt, leading to higher provisioning expenses, which will exert further pressure on the group's capital and profitability levels.

Funding remains under pressure, given the negative sentiment towards local unsecured lenders. The funding profile is further weakened as a result of delays in the group's capital raising initiative. Although cognisance is taken of the group's ability to

access cross-border funding through offshore markets, GCR expects Real People's funding position to remain vulnerable in view of the weakening domestic operating conditions.

Loans and advances growth has remained subdued in the interim period (April – August 2014) as measures implemented by the group to enhance liquidity have constrained asset growth. A lack of access to sufficient capital and funding could further impact on new business volume growth, leading to a contraction of the group's balance sheet size and ultimately a weaker franchise.

The group posted a loss after tax of R304m in F14, heavily weighed down by margin compression and a significant increase in loan loss impairments. However, it appears that the group's continuing businesses are demonstrating a profitability recovery trend, largely driven by a reduction in impairment roll rates in the home finance book and improving collection levels on the acquired portfolio. Nevertheless, it seems unlikely that a return to strong profitability will take place in the short term, as pressure on margins are likely to remain given expected increases in funding costs and lower volumes of loan sales. Furthermore, asset quality pressure and planned changes to provisioning policies are expected to lead to higher provisioning costs, negatively impacting the group's earnings (albeit to a less significant extent than in F14).

In terms of short term liquidity management, the group's net cash inflow position improved to R165m in August 2014 from R11m as at end-June 2014, as a result of the notable decrease in liabilities payable. On a longer term basis, the group runs a positive cumulative liquidity mismatch across all maturity buckets. Therefore, as it stands, the group has sufficient cash resources to honour its debt obligations. However, a significant risk to the group going forward is its ability to access new debt (which is needed for growth), given the lack of investor appetite in the wake of African Bank Limited's collapse.

The negative rating outlook combined with the group's fragile operating environment makes an upgrade unlikely in the near term. Real People's ratings could be further downgraded if the group fails to raise adequate capital or is unable to gain access to sufficient market funding. Further negative rating pressure may result if the group's asset quality performance is weaker than expected and/or its recurring profitability continues to provide a weakened buffer to counter the inherent risk in its business model.

**NATIONAL SCALE RATINGS HISTORY**

Initial rating (Nov/2011)  
Long term: BBB(ZA); Short term: A2(ZA)  
Outlook: Stable

Last rating (Jul/2014)  
Long term: BBB(ZA); Short term: A2(ZA)  
Outlook: Negative

**INTERNATIONAL SCALE RATING HISTORY**

Initial rating (Dec/2013)  
Long term: BB  
Outlook: Stable

Last rating (Jul/2014)  
Long term: BB+  
Outlook: Negative

**ANALYTICAL CONTACTS****Primary Analyst**

Kurt Boere  
Credit Analyst  
(011) 784-1771  
boere@globalratings.net

**Secondary Analyst**

Omega Collocott  
Head: Financial Institution Ratings  
(011) 784-1771  
omegac@globalratings.net

**Committee Chairperson**

Eyal Shevel  
Head: Corporate Ratings  
(011) 784-1771  
shevel@globalratings.net

**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Microfinance Institutions, April 2014

Previous Rating Reports (up to June 2014)

**RATING LIMITATIONS AND DISCLAIMERS**

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.NET/RATINGS-INFO](http://GLOBALRATINGS.NET/RATINGS-INFO). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.NET](http://GLOBALRATINGS.NET).

**SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Real People Investment Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Real People Investment Holdings Limited with no contestation of the rating.

The information received from Real People Investment Holdings Limited and other reliable third parties to accord the credit rating(s) included the latest available audited annual financial statements as at 31 March 2014 (plus four years of comparative numbers), most recent year to date management accounts for the five months ended 31 August 2014, corporate governance and enterprise risk framework, reserving methodologies, capital management policy, industry comparative data and regulatory framework, and a breakdown of facilities available and related counterparties.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

**GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY**

Asset Quality	The ability of a bank's assets, especially its loans, to continue to perform according to its terms and generate net interest income for the bank.
Balance Sheet	Basic financial statements, usually accompanied by appropriate disclosures that describe the basis of accounting used in its preparation and presentation of a specified date the entity's assets, liabilities and owners' equity. Also known as a statement of financial position.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Corporate Governance	The manner in which an entity is governed and decisions are undertaken.
Credit Rating Agency	A party that provides an opinion on the credit quality of assets, debt securities and companies.
Credit risk	Risk that a party to a contractual agreement or transaction will be unable to meet their obligations or will default on commitments. Credit risk can be associated with almost any transaction or instrument such as swaps, repos, CDs, foreign exchange transactions, etc. Specific types of credit risk include sovereign risk, country risk, legal or force.
Default	Failure to make loan payments on a timely basis or to comply with other terms/requirements as stipulated in the loan agreement.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.
Franchise	Business or banking franchise; a bank's business.
Impairment	An amount set aside for expected losses to be incurred by a creditor.
Income Statement	Summary of the effect of revenues and expenses over a period of time.
Inherent Risk	Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions/controls be in place to mitigate the risk.
Interest Rate	The amount paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. Interest is paid on loans or on debt instruments, such as notes or bonds, either at regular intervals or as part of a lump sum payment when the issue matures.
Liquidity Risk	Liquidity is the ability to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses.
Rating Outlook	A rating outlook indicates the potential direction of a rating over the medium term, typically a one to two year period.
Sovereign Risk	The risk of default by the government of the country on its obligations.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT [WWW.GLOBALRATINGS.NET/RATINGS-INFO](http://WWW.GLOBALRATINGS.NET/RATINGS-INFO). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.